

MARKET PE and LIQUIDITY

Every investor tries to maximize returns on the investment done and time the upcoming investments to further improve the gain. It is always a challenge to predict the market movement, especially the equity market. Many investors learnt through various encounters over the years and rely either on strategic decisions over tactical moves or become complacent. In other words, instead of 'timing the market' they prefer 'time in the market' and likewise other methods.

For patient investors, keeping eye on Market PE proves to be great tool while taking decision for investment.

Table 1 - Nifty 50 PE¹ and FII and DII² Net Buy and Sell

	NIFTY 50 PE												FII	DII
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Net Buy / Sell in Cr IN	Net Buy / Sell in Cr INR
2025	21.43	20.69	20.33	21.34	22.18	22.45	22.51	21.74	21.66				-2,16,921	5,13,343
2024	22.86	22.66	22.52	23.07	21.56	22.18	23.22	22.86	24.26	23.24	21.49	22.3	-3,04,217	5,27,438
2023	21.49	20.89	20.29	20.7	21.56	21.8	23.35	22.43	22.39	21.74	21.02	22.61	-16,325	1,81,482
2022	23.42	22.54	21.7	22.7	20.32	19.5	20.73	21.2	20.64	20.9	21.9	22.09	-2,78,429	2,75,726
2021	38.9	40.8	40.43	32.73	29.27	29.08	28.11	26.11	26.98	27.31	23.43	23.69	-91,626	94,846
2020	27.96	26.92	21.38	20.38	21.24	24.7	28.6	31.59	32.55	33.99	34.34	37.26	65,246	-35,663
2019	26.08	26.66	27.76	29.12	28.88	29.25	28.28	27.12	26.93	26.51	27.67	28.18	39,881	42,257
2018	27.24	25.61	24.97	26	26.58	26.77	27.19	28.22	27.46	25.05	25.59	26.07	-73,212	1,09,662
2017	22.44	23.23	23.47	23.37	24.25	24.31	25.1	25.37	25.99	26.26	26.35	26.42	-44,109	90,738
2016	20.34	19.34	20.39	21.29	21.51	22.52	23.33	23.65	24.08	23.35	21.99	21.49	-10,582	35,363
2015	21.73	23.09	23.21	22.88	22.4	22.7	23.49	22.99	21.69	22.48	21.36	21.1	-20,374	67,587
2014	18.29	17.37	18.33	18.99	19.62	20.57	20.66	20.42	21.2	20.65	21.5	21.23	67,423	-28,557
2013	18.87	18.26	17.89	17.4	18.13	17.49	17.88	16.12	16.83	17.72	17.8	18.56	58,374	-48,026
2012	17.71	19.09	18.74	18.46	16.97	16.89	17.22	17.67	18.42	18.95	18.14	18.63	1,01,166	-55,800
2011	22.84	20.67	21.16	22.02	20.37	20.2	20.49	18.29	18.11	18.15	18.11	17.32	-26,598	29,206
2010	22.84	20.72	22.03	22.76	21.2	21.73	22.42	22.95	24.51	25.23	24.39	23.82	61,513	-19,227
2009	12.73	13.38	13.3	15.89	18.67	20.16	19.83	20.5	21.86	22.34	21.91	22.7	24,820	26,106
2008	25.33	22.19	20.58	21.26	21.46	19.04	17.56	18.63	17.98	13.77	12.42	12.69	-1,01,803	72,967

Reference: 1. PrimeInvestor.com , 2. Moneycontrol.com

Market price is a function of underlying earnings or the projection of earnings. It is also established over long period that the liquidity, play major role in valuations. In other words, it's an interplay of earnings and liquidity. Domestic player's investment has shown major support to the market while FII preferred to sell Indian equities in CY 2024 & 2025.

For retail investor, it is difficult to understand the impact of micro and macro factors. However, simple hacks like periodically observe market PE, understand the market as either overheated or contrary situation. e.g.: from historic data (ref Table -1) some opportunities like months in which PE was less than say 21 in post pandemic period and months in which PE was less than 18 in pre-pandemic period, would have been good entry points for risk-adjusted returns. Individual instrument selection is always a matter of knowledge and skill, however framework like certain PE levels would prove to be good entry and exit gates which either indicate high level of fear or greed in its own way or at least perception about valuation of the market with relevant period earnings.

Unprecedented liquidity surge by DII in CY 2024 & 2025 has negated impact of FII outflow in significant way. However, it is not easy to predict continuation of domestic inflow for longer period in absence of market returns and visibility in earning growth. Until FII flow reverses, meaningful upside in market is a distant dream. With the recent changes viz: GST cut , tariff by US , various BTA with different countries, interest rate cuts by RBI, etc. there would be some impact on consumer behavior, government spending patterns (eg: special packages for exporters, infra spending , public spendings for consumption boost, schemes to boost manufacturing, defense spends , etc.) And it may take a quarter or two to settle the dust and gather momentum. Until then market may either stay sideways or with negative bias.